

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-14 ISO-00 EURE-00 AID-05  
CIAE-00 EB-07 FRB-01 INR-07 NSAE-00 XMB-04  
OPIC-06 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05  
SS-15 STR-04 CEA-01 L-03 H-02 PA-02 PRS-01  
INRE-00 SSO-00 NSCE-00 USIE-00 AGRE-00 FEAE-00  
DOTE-00 HUD-02 /121 W  
-----128028 291721Z /42

O R 291647Z JUN 77  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC IMMEDIATE 5672  
TREASURY DEPT WASHDC IMMEDIATE  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY DUBLIN  
AMEMBASSY NEW DELHI  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL BELFAST  
AMCONSUL EDINBURGH  
USMISSION GENEVA  
USDOC WASHDC

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USEEC ALSO FOR EMBASSY  
USOECN ALSO FOR EMBASSY  
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A  
TAGS: ECON, UK  
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SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD JUNE 23 - 29

SUMMARY: THE TREASURY STATED THEIR CONCERN THAT AVERAGE  
EARNINGS GROWTH BE NO GREATER THAN 10 PERCENT OVER THE  
INCOMES POLICY YEAR BEGINNING AUGUST 1. THE MOVEMENT IN  
QUARTERLY BANK ADVANCES WERE SMALL OVER FEBRUARY 17/MAY 18  
AND DOMINATED BY THE GOVERNMENT'S FOREIGN CURRENCY BORROW-

ING. STERLING ADVANCED AGAINST THE DOLLAR OVER THE WEEK AS CONCERNS OVER THE U.S. EXTERNAL SECTOR WERE VOICED. THE GOVERNMENT ISSUED TWO MAJOR DOCUMENTS ON LONG TERM POLICIES FOR HOUSING AND TRANSPORT. THE BP OFFER WAS 4.7 TIMES OVERSUBSCRIBED.

1. PHASE 3 - H.M. TREASURY'S VIEW

H.M. TREASURY CHIEF SECRETARY, JOEL BARNETT, PUBLICLY OUTLINED OFFICIAL THINKING ON THE KEY ELEMENTS OF THE PAY ROUND BEGINNING AUGUST 1, IN AN ADDRESS TO LONDON INDUSTRIALISTS. AFTER DESCRIBING HOW LAST SUMMER'S DROUGHT AND THE DECLINE IN STERLING ADDED 6 TO 7 PERCENTAGE POINTS TO THE RATE OF INCREASE IN RETAIL PRICES, HE SPOKE OF THE LIKELIHOOD OF A SWIFT DECLINE IN THE ANNUAL RATE OF PRICE INCREASE TO 12-13 PERCENT BY DECEMBER AS THESE TRANSITORY INFLUENCES PASSED THROUGH THE SYSTEM. BARNETT THEN TURNED TO THE IMPACT OF WAGES ON PRICES. HE NOTED THAT THE 1974-75 WAGE EXPLOSION PRODUCED NO LASTING RISE IN REAL INCOMES BRITAIN HAD TO ADJUST TO OIL-WORSENERED TERMS OF TRADE AND THAT MEANT A FALL IN REAL INCOMES. THE WORST OF THAT ADJUSTMENT WAS NOW OVER. BARNETT WARNED THAT INFLATION HAD TO BE REDUCED IF REAL WAGES WERE TO RISE FROM CURRENT LEVELS. THAT MEANT A FURTHER PERIOD OF PAY RESTRAINT. HIS MAIN CONCERNS WERE THAT A) THE NEXT PAY ROUND PRODUCE A RISE IN AVERAGE EARNINGS OF NOT MORE THAN 10 PERCENT IN THE YEAR FROM AUGUST 1; B) THE 12-MONTH GAP BETWEEN WAGE UNCLASSIFIED

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SETTLEMENTS BE MAINTAINED; C) THAT UNEMPLOYMENT NOT RISE FROM CURRENT LEVELS; D) FLEXIBILITY BE THE HALLMARK OF NEW SETTLEMENTS WHILE RESPECTING THE 10 PERCENT AVERAGE EARNINGS TARGET; E) THAT ADDED PAYMENTS FOR INCREASED PRODUCTIVITY BE SELF-FINANCING AND PAID OUT ONLY WHEN TANGIBLE INCREASES IN OUTPUT WERE ACHIEVED. BARNETT SAID THAT HE WAS CONFIDENT THAT HMG AND THE TUC COULD REACH AGREEMENT AFTER A PERIOD OF TOUGH BARGAINING.

2. BANK ADVANCES IN STERLING TO UK RESIDENTS STOOD AT 25.082 BILLION POUNDS ON MAY 18, LITTLE CHANGED FROM THEIR 24.954 BILLION POUND LEVEL AT THE END OF THE NOVEMBER 17/FEBRUARY 16 BANKING QUARTER. THERE WERE GENERALLY ONLY SMALL CHANGES IN ADVANCES TO PARTICULAR SECTIONS. STERLING ADVANCES TO THE MANUFACTURING SECTOR FELL 1.8 PERCENT TO 6.832 BILLION POUNDS. THIS WAS FELT MOST HEAVILY IN THE RESIDUAL CATEGORY, "OTHER ENGINEERING AND METAL GOODS" WHICH FELL 8.8 PERCENT TO 1.219 BILLION POUNDS.

3. FOREIGN CURRENCY ADVANCES TO UK RESIDENTS INCREASED 6.0 PERCENT TO 10.889 BILLION POUNDS OVER THE QUARTER

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INRE-00 SSO-00 NSCE-00 USIE-00 AGRE-00 FEAE-00  
DOTE-00 HUD-02 /121 W

-----128103 291721Z /42

O R 291647Z JUN 77  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC IMMEDIATE 5673  
TREASURY DEPT WASHDC IMMEDIATE  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY DUBLIN  
AMEMBASSY NEW DELHI  
AMEMBASSY PARIS  
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ENDED MAY 18. THIS INCREASE ADJUSTED FOR FOREIGN EXCHANGE  
CHANGES WAS 675 MILLION POUNDS, OF WHICH 458 MILLION  
POUNDS IS ATTRIBUTABLE TO UK BANKS' PARTICIPATION IN THE  
EUROCURRENCY LOAN TO HMG. THE FIRST TRANCHE OF  
THIS \$1.5 BILLION LOAN NEGOTIATED LAST JANUARY WAS DRAWN  
DOWN DURING THE QUARTER.

4. STERLING STRENGTHENED STEADILY DURING THE WEEK BOTH IN  
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SPOT AND FORWARD TRADING. REASONS GIVEN INCLUDE A) DOLLAR WEAKNESS, LINKED TO US TRADE FIGURES AND PUBLIC STATEMENTS INCLUDING ONE FROM CONGRESSMAN REUSS THAT THE INCREASED US DEFICIT "SPELLS TROUBLE"; B) STRONGER COMMERCIAL AND PROFESSIONAL DEMAND FOR STERLING, QUITE HEAVY THIS WEEK ON INCREASED VOLUME, WITH INCREASED PROFESSIONAL DEMAND AS THE POUND ROSE ABOVE \$1.72, AND C) TECHNICAL FACTORS IN THE DOLLAR/POUND SPOT MARKET; I.E. THE THREE-DAY FOURTH OF JULY WEEKEND, WHICH MEANS THAT THE NORMAL TWO-DAY SPOT SETTLEMENT WILL BE DELAYED A DAY IN NEW YORK THEREBY RAISING THE DOLLAR PRICE OF STERLING BY ABOUT 5 BASIS POINTS. FORWARDS ALSO NARROWED,

RAISING MARKET SPECULATION THAT THE BANK OF ENGLAND WAS ACTIVE IN THESE MARKETS.

##### 5. NATIONAL HOUSING AND TRANSPORT POLICIES

IN SUCCESSIVE DAYS HMG ISSUED TWO MAJOR DOCUMENTS DEALING WITH FUTURE GOVERNMENT POLICIES IN THE AREAS OF HOUSING AND TRANSPORT.

IN A WHITE PAPER ON TRANSPORT POLICY HMG PUTS FORWARD PROPOSALS, MANY OF WHICH WILL BE EMBODIED IN GOVERNMENT BILLS IN THE NEXT SESSION OF PARLIAMENT. WHILE NOT PROPOSING ANY INCREASE IN PUBLIC EXPENDITURE ON SURFACE TRANSPORT, HMG'S PROPOSALS WOULD RESULT IN A SHIFT OF RESOURCES AMONG COMPETING USERS. FOR EXAMPLE, SPENDING ON HIGHWAY CONSTRUCTION WOULD DECLINE WHILE BUS AND RAILROAD SUBSIDIES WOULD RISE SHARPLY. REACTION TO THE WHITE PAPER WAS RESTRAINED. IN PARLIAMENT, COMMENTS GENERALLY FOLLOWED PARTY LINES. MORE BROADLY, COMMENTS BY INTERESTED GROUPS GENERALLY REFLECTED THEIR INDIVIDUAL BIASES.

THE HOUSING PROPOSALS WERE CONTAINED IN A GREEN PAPER WHICH IS MEANT TO STIMULATE FURTHER DISCUSSION TO ASSIST HMG IN FORMULATING MORE CONCRETE PROPOSALS. IT PUTS UNCLASSIFIED

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FORWARD 74 RECOMMENDATIONS COVERING VIRTUALLY EVERY ASPECT OF HOUSING POLICY. HOUSING FINANCE RECEIVES A LARGE SHARE OF ATTENTION. HMG PROPOSES TO RETAIN TAX RELIEF ON MORTGAGE INTEREST AND PROVIDE INCENTIVES TO FIRST-TIME BUYERS. IT URGES SAVINGS AND LOANS TO INCREASE THE AVAILABILITY OF LOW DOWNPAYMENT MORTGAGES AS WELL AS INCREASING LENDING ON OLDER PROPERTIES. WITH REGARD TO PUBLIC HOUSING, HMG URGES A MORE EFFICIENT AND FAIRER USE OF HOUSING SUBSIDIES. THIS WOULD BE ACHIEVED BY REDUCING THE LEVEL OF SUBSIDIES IN SOME AREAS WHILE RAISING IT IN OTHERS. RENTS IN PUBLIC HOUSING MUST SHOW A REASONABLE RELATIONSHIP TO COSTS. THIS SEEMS TO IMPLY A CHANGE FROM THE CURRENT SITUATION WHERE RENTS COVER

ABOUT 43 PERCENT OF COSTS. THE GREEN PAPER RECEIVED A CAUTIOUS WELCOME FROM THE TORIES AND LIBERALS WHEN OUT-LINED IN PARLIAMENT BY ENVIRONMENT SECRETARY PETER SHORE.

6. THE GOVERNMENT'S OFFER OF 66.79 MILLION SHARES OF BRITISH PETROLEUM WAS 4.7 TIMES OVERSUBSCRIBED. ALTHOUGH THE BANK OF ENGLAND HAD PLANNED TO WITHDRAW 25 PERCENT OF THE LONDON OFFER TO PLACE ON THE N.Y. MARKET, THE HEAVY APPLICATION AND POLITICAL PRESSURE INDUCED IT TO WITHDRAW BUT 20 PERCENT (SEE LONDON 10702).

7. EXCHANGE RATE AND GOLD

EFFECTIVE

EXCHANGE RATE

| EXCHANGE (DEC. 1971 | GOLD                       |
|---------------------|----------------------------|
| DATE                | RATE (\$) EQUALS 100) (\$) |
| 6/22                | 1.7199 61.6 139-3/8        |
| 6/23                | 1.7198 61.6 140-3/8        |
| 6/24                | 1.7198 61.6 140-5/8        |
| 6/27                | 1.7202 61.6 142-7/8        |
| 6/28                | 1.7203 61.5 142-5/8        |

CHANGE 6/21-6/28 UP 0.0007 DOWN 0.1 UP 1-1/2

8. FORWARD DISCOUNT ON STERLING

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| DATE | 1 MONTH | 3 MONTHS | 6 MONTHS |
|------|---------|----------|----------|
| 6/22 | 0.53    | 1.80     | 3.73     |
| 6/23 | 0.47    | 1.75     | 3.76     |
| 6/24 | 0.46    | 1.68     | 3.69     |
| 6/27 | 0.32    | 1.39     | 3.23     |
| 6/28 | 0.28    | 1.32     | 3.15     |

CHANGE 6/21-6/28 NAR 0.18 NAR 0.31 NAR 0.38

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INRE-00 SSO-00 NSCE-00 USIE-00 AGRE-00 FEAE-00  
DOTE-00 HUD-02 /121 W

-----128117 291719Z /42

O R 291647Z JUN 77  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC IMMEDIATE 5674  
TREASURY DEPT WASHDC IMMEDIATE  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY DUBLIN  
AMEMBASSY NEW DELHI  
AMEMBASSY PARIS  
AMEMBASSY ROME  
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(ALL FIGURES IN CENTS)

9. EURODOLLAR INTEREST RATES

| DATE | 1 MONTH | 3 MONTHS | 6 MONTHS |
|------|---------|----------|----------|
| 6/22 | 5-1/2   | 5-3/4    | 6-1/8    |
| 6/23 | 5-1/2   | 5-3/4    | 6-1/4    |
| 6/24 | 5-1/2   | 5-7/8    | 6-1/4    |
| 6/27 | 6       | 6        | 6-1/4    |

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|                     |       |        |        |
|---------------------|-------|--------|--------|
| 6/28                | 5-7/8 | 6      | 6-1/4  |
| CHANGE 6/21-6/28 UP | 3/8   | UP 1/8 | UP 1/8 |

10. 3-MONTH LONDON INTERBANK-EURODOLLAR INTEREST RATE  
DIFFERENTIAL

| DATE                           |
|--------------------------------|
| 6/22 2-3/16                    |
| 6/23 2-3/16                    |
| 6/24 2-1/16                    |
| 6/27 1-27/32                   |
| 6/28 1-13/16                   |
| CHANGE 6/21-6/28 NARROWED 5/32 |

11. STERLING CERTIFICATES OF DEPOSIT

| DATE | 1 MONTH | 3 MONTHS | 6 MONTHS |
|------|---------|----------|----------|
|------|---------|----------|----------|

|      |         |         |         |
|------|---------|---------|---------|
| 6/22 | 7-1/4   | 7-13/16 | 8-23/32 |
| 6/23 | 7-11/32 | 7-53/64 | 8-49/64 |
| 6/24 | 7-11/32 | 7-13/16 | 8-3/4   |
| 6/27 | 7-9/32  | 7-23/32 | 8-11/16 |
| 6/28 | 7-1/8   | 7-3/4   | 8-7/16  |

CHANGE 6/21-6/28 DOWN 3/32 UNCHANGED DOWN 15/64

12. THE MINIMUM LENDING RATE REMAINED AT 8 PERCENT AFTER FRIDAY'S TREASURY BILL AUCTION. THE AVERAGE TREASURY BILL RATE ROSE BY 0.0041 PERCENT TO 7.4566 PERCENT AS THE 400 MILLION POUNDS IN BILLS TENDERED ATTRACTED 901.22 MILLION POUNDS IN BIDS. THIS WEEK 300 MILLION POUNDS IN BILLS WILL BE OFFERED AS 500 MILLION POUNDS MATURE.

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## Message Attributes

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**Copy:** SINGLE  
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**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
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**Litigation Codes:**  
**Litigation History:**  
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**Office:** ACTION EUR  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 7  
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**Previous Handling Restrictions:** n/a  
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**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
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**Status:** NATIVE  
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**TAGS:** ECON, UK  
**To:** STATE TRSY  
**Type:** TE  
**vdkgvkey:** odb://SAS/SAS.dbo.SAS\_Docs/92091b83-c288-dd11-92da-001cc4696bcc  
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